

**Opening Statement of Chairman Kent Conrad**  
**Hearing on Reassessing the Economic Outlook**  
*June 27, 2001*

Good morning. I want to welcome our witnesses and thank you for taking time to be with us on an important subject. This is the first of two hearings this week to assess the current state of the budget. Today we will look at how the economic outlook has changed since CBO made its baseline projections in January with an emphasis on how uncertain that outlook remains, particularly with respect to the long-term trend in productivity. Tomorrow we will focus on the available surplus.

We've now in looking back at CBO's January baseline, we see that there were some signs that the economy might be slowing after a period of very rapid economic growth. Nevertheless, most economists at the time believed that the longest economic expansion on record still had plenty of room to run. The CBO baseline budget projected \$5.6 trillion of surpluses between 2002 and 2011 based on a relatively favorable short-term and long-term economic outlook.

In the short run, CBO assumed that the economy would experience a mild slowdown in 2001 and a recovery in 2002. Growth in real GDP, they indicated, would fall from an estimated 5.1 percent in 2000 to 2.4 percent in 2001 with a bounce back to 3.4 percent growth in 2002.

CBO's long-term growth projection reflected an upward revision in the estimated rate of potential productivity growth to about 2.7 percent per year over the 2002-2011 period. Taking into account the moderation of growth in 2001, actual productivity growth was estimated to be somewhat less, but a still-robust 2.5 percent per year. This projected rate of productivity growth was well above the 1.5 percent rate achieved in the 1974 to 1995 period but a little less than the very strong growth we saw in 1996 to 2000. In large measure, CBO accepted the view of many economists that trend productivity growth had increased after 1995.

Subsequent Developments. We will hear testimony today that the economic situation in the short run is certainly looking somewhat worse than CBO was projecting in January. Dr. Bailey, you have an interesting chart in your testimony that shows how the Blue Chip forecast for 2001 has deteriorated over the course of the year. In January the Blue Chip consensus was 2.6 percent when CBO was estimating 2.4 percent, but the June Blue Chip forecast is now down to 1.8 percent.

A short-term slowdown obviously hurts the surplus for a few years, but if the economy bounces back quickly the long-term impact does not have to be that significant. What matters for the long-term is the economy's sustainable growth rate -- that's really one of the few things we want to focus on today -- which is based on productivity and labor force growth, with productivity being the key unknown, and what we really want to focus on today.

Back in January, economists seemed to be coming around to the view that trend productivity had rebounded from two decades of rather sluggish growth. Fed Chairman Greenspan testified before this Committee that productivity was holding up remarkably well even as the economy showed signs of slowing and he was confident of the longer-term outlook.

I wonder what he would have said that if he knew that productivity growth was falling as he was speaking and that productivity would fall in the first quarter by 1.2 percent at an annual

rate. We have a chart that shows that as well. We saw very handsome gains in productivity in the late 90's, but the first quarter of 2001 that reversed and we saw productivity actually fall 1.2%. All of us I think need to be warned that quarter-by-quarter numbers aren't all that critical, but this may be an indicator that we're seeing a slowing of productivity growth.

The Implications for the Budget. I think one of the most important things that can come out of this hearing is a renewed respect for the uncertainty – and I want to put the frame on that – the uncertainty of long-term economic and budget forecasts. This after all is a 10-year forecast.

The famous CBO fan chart that showed estimates of uncertainty based on CBO's past forecasting records, should have warned us that there was nothing certain about a projection of \$5.6 trillion of surpluses over the next 10 years. Now, of course, the baseline is smaller because we have enacted a tax cut. And we have, as a result, updated the CBO fan chart that shows the uncertainty of the CBO forecast. In the year 2006 shows a variance of anywhere from a negative of \$250 billion to a positive of \$1 trillion in that sixth year alone. The uncertainty in the fan chart is based on CBO's past forecasting record. This is their own analysis of what has happened over this period.

Today, we are going to have a chance to hear from a distinguished panel of witnesses, and we really do have I think an outstanding group. We will limit opening statements to the chairman, our former chairman and myself, and then we will go to the witnesses. We will limit them to 7 minutes each and ask them to include their full statements as part of the record. Then we'll go to a questioning round with each Senator having 7 minutes for a statement and questions, however they choose to divide up the time. With that, I just want to acknowledge our witnesses and I'll introduce them after our ranking member has a chance to make whatever opening statement he would like to and we'll turn to Senator Domenici, my very able colleague, who has served this committee and the Senate and the country in a very distinguished way over a long period of time.

(Domenici remarks)

Thank you very much Senator Domenici. As always, you have observations that are useful to all of us, and we appreciate very much your participation.

Really, we have two things going on here. One is we know there is some slowdown in the economy. It appears now with the consensus forecast the economic growth is below that of what was projected by the Congressional Budget Office. Then we have this longer-term question – the question of productivity growth.

One of the reasons we thought it was important to have this hearing is because there was a very thought-provoking article in the Economist, the May 12<sup>th</sup> edition suggesting that productivity growth that undergirds the long-term forecast may be overly optimistic. Certainly, it's a much higher rate of productivity growth that's in the forecast than we saw in the 20 years from 1974 to 1995. But it's lower than the productivity growth we saw in more recent years. And, one of the questions that we really need to probe today is, "What can we reasonably expect in terms of productivity growth over the next decade?" Because it has enormous implications for the federal budget. About every one-tenth of one percent change in productivity growth alters our projected budget surplus by over \$200 billion so this has enormous implications for the budget and it's the reason we thought it would be useful to have this hearing today.